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CENTRAL INTELLIGENCE AGENCY
National Foreign Assessment Center
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INTELLIGENCE MEMORANDUM

INNER-GERMAN AGREEMENTS: AN INITIAL APPRAISAL

Key Judgments

The agreements signed on 16 November by East and West Germany constitute the most comprehensive and important bilateral accords reached since relations were normalized in 1972. The significance lies mainly in the long-range implications of this package. In immediate terms, the balance of interests rather favors East Germany, but long term gains in the new agreements accrue mainly to West Berlin, which will be more accessible and which will benefit industrially from the canal improvements.

- Bonn has achieved major transit improvements between West Germany and West Berlin.
- The agreements provide for continuing follow-up dialogue which will be significant both as a stabilizing factor in inner-German relations and for detente in Central Europe.
- East Germany, for its part, will receive over \$3.5 billion in badly needed hard currency over the next ten years, with the possibility of smaller additional sums for projects to be discussed in 1980.
- The agreement is a personal plus for East German party chief Erich Honecker, who acquired a large hard currency windfall without making humanitarian concessions.

This memorandum was prepared by the Office of Regional and Political Analysis and the Office of Economic Research. Questions and comments may be directed to

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- *The West German opposition to Chancellor Schmidt will not basically reject the new package of all-German agreements, but it will make good use of its standard charge that Bonn was outbargained by East Berlin. The West German parliament will, nevertheless, endorse the package after lively debate, provided there is no unexpected disturbance in inner-German relations in the meantime.*
- *Moscow clearly supports these agreements; the negotiations gained momentum following Brezhnev's visit to Bonn last May.*

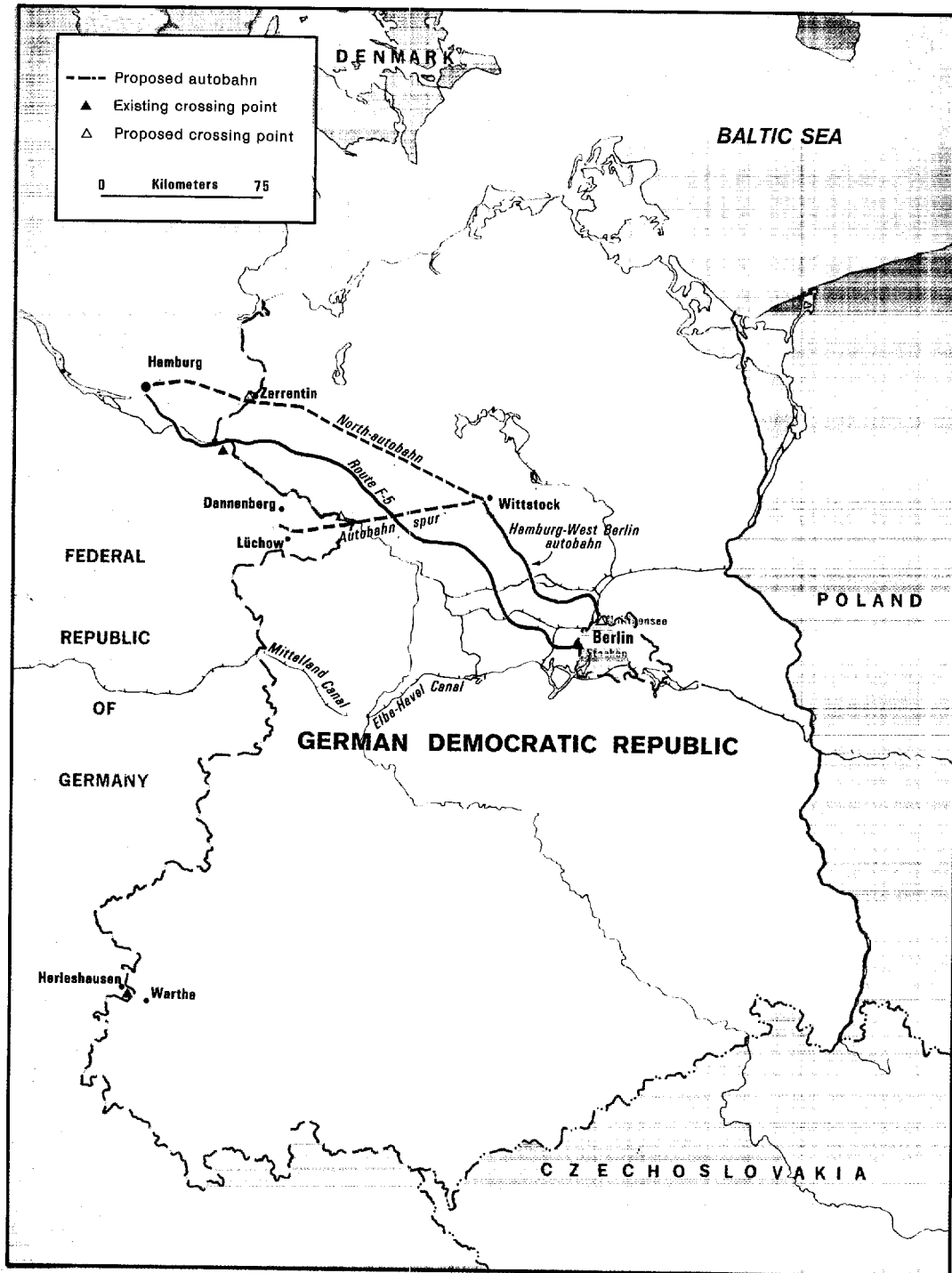
The major elements covered by the accords are*:

- construction of a new transit autobahn from Hamburg to West Berlin, costing West Germany 1.2 billion Marks (\$600 million)
- reopening of the Teltow Canal in West Berlin, costing 70 million Marks (\$35 million)
- major repairs to the Mittelland and Elbe-Havel canals between West Germany and West Berlin, costing 90 million Marks (\$45 million)
- conclusion of a 10-year transit road accord that fixes annual transit payments at 525 million Marks (\$262.5 million)
- discussion in 1980 of such additional projects as further transit waterway repairs and expansion of the Herleshausen-Wartha crossing point near Eisenach, costing at least an estimated 500 million Marks (250 million)

The joint projects are a stipulated follow-up to the 1971 Quadripartite Agreement on Berlin and the Basic Treaty of 1972 which laid the groundwork for future negotiations. It was agreed in late 1975 to enter into formal negotiations on the autobahn in 1978, and talks began in 1977. Negotiations were placed on ice, however, following the cooling of relations resulting from the Spiegel "manifesto" affair, and did not resume until after Brezhnev's visit to Bonn last May and the June meeting of Guenter Gaus, head of the West German Permanent Mission in East Berlin, with Honecker, their first since 1976. Talks progressed at a fast pace

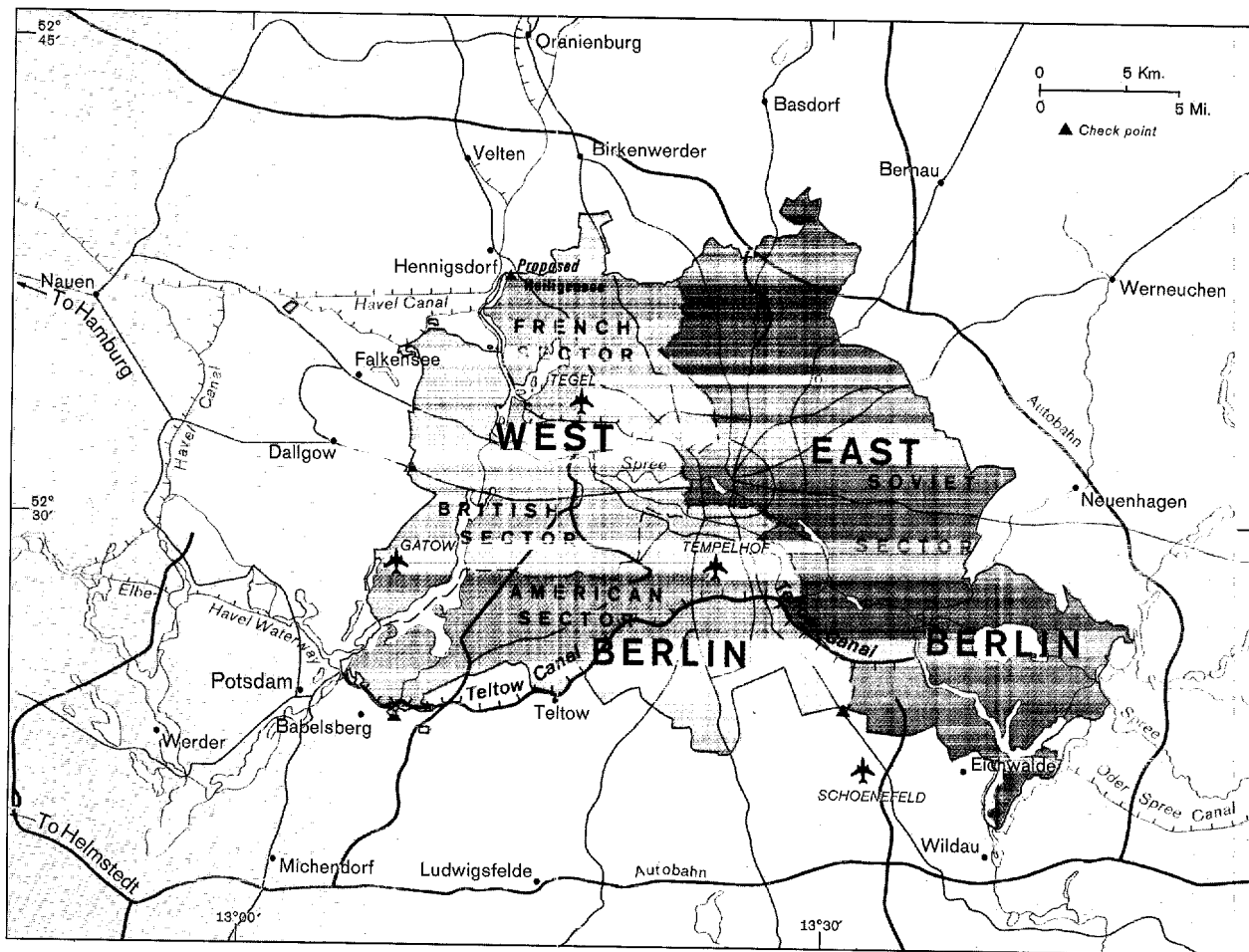
*a detailed account of each provision is given in the Appendix.

Proposed Autobahns and Crossing Points



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Teltow Canal



over the next five months, a fact many West German officials, no doubt correctly, have attributed to the Kremlin's desire for improved relations with West Germany. Certainly the thereto-fore obdurate East Germany became markedly more forthcoming on such matters as the reopening of the Teltow Canal.

While on the surface it might appear that East Germany came away the big winner from the negotiations, especially since Honecker made no humanitarian concessions, the Federal Republic did in fact score some strategic points. West German opposition criticism will center on the lack of any perceptible "human improvements." Both sides pursued different goals, East Berlin opting for financial advantage and Bonn for political objectives. It is not inconceivable that there was an unwritten understanding that East Berlin will be more forthcoming on certain humanitarian issues in the future. Some spokesmen in Bonn are portraying this as being the case, but until the East Germans act, the impression remains that East Berlin has sold the Federal Republic a "pig on a poke" on humanitarian concessions.

Our initial assessment, based on what is known thus far about the accords, follows.

The View from Bonn

Pluses

1. The Federal Republic represented West Berlin de facto in the negotiations and Bonn is pleased that this strengthened its claim to handle West Berlin interests. (In the past East Germany considered West Berlin a "special" political entity, and insisted that the West Berlin Senat, not Bonn, negotiate on the Teltow Canal.
2. Reopening the Teltow Canal and repairing other major transit waterways will be an economic boost for West Berlin as it will cut shipping costs and transit time and aid local industry.
3. Construction of the Hamburg-West Berlin autobahn significantly shorten driving time to West Berlin.
4. The fixing of the road transit fee for ten years will enable Bonn's economic planners to better judge transit outlays and will avoid the renegotiation delays previously experienced.

5. The autobahn and canal projects demonstrate to the West German and West Berlin public Bonn's policy of support for West Berlin, within the terms of the Quadripartite Agreement.
6. The agreements lock the two Germanies into an ongoing dialogue for a few years and this could increase East German confidence and trust in bilateral dealings with Bonn.

Minuses

1. East Berlin obtains a large sum of hard currency.
2. Bonn did not achieve--at least in the form of a written agreement--any concessions for improving the lot of East German citizens.

The View from East Berlin

Pluses

1. The GDR replenishes a reservoir of badly needed hard currency which it may use to import more technology from the West and to offset its trade deficit with Bonn. The acquisition of stated sums at specified times will help East German economic planners.
2. The hard currency windfall, accompanied by Soviet approval for the agreements, should act as a plus for Honecker.
3. The GDR now has legitimate, acknowledged reasons to talk with Bonn.
4. East Germany was successful in avoiding any public or conceptual linkage between the economic package and humanitarian concepts.

Minuses

1. East Germany has recognized Bonn's de facto representation of West Berlin in negotiating the Teltow Canal.
2. Construction of the new superhighway will open up the GDR to many more West Germans; their presence creates additional political, ideological, and security problems for the regime.

3. East Germany will have fewer excuses to interfere with the autobahn and waterway traffic as both come under the transit route regulations, which are in turn linked to the Quadripartite Agreement.
4. The Teltow Canal reopening was apparently the result of Soviet "suggestions," implying that East Berlin's toes may have been stepped on.
5. Some in the party leadership, particularly persons in the military and security establishments, are likely to have reservations about the resultant increase in contacts with West Germans. This dissatisfaction could mean difficulties for Honecker if a post-Brezhnev leadership is more conservative in its policies towards West Germany.

The Poker Play

The East Germans held relatively firm on all major issues during the negotiations. The talks were punctuated by "hints" from East German and Soviet unofficial spokesmen who told their West German and West Berlin contacts of Soviet "pressure" on the GDR, Moscow's "displeasure" with Honecker's domestic policies, and rumors that the East German leader was under fire from Politburo "hardliners" because of the negotiations. Clearly this tactic was a ploy to obtain the maximum amount of hard currency from Bonn. Inner-German talks have usually been characterized by such a rumor pattern and the West Germans again apparently gave them at least some credence.

While the Soviets are suspicious of all contacts between "Germans", as mentioned above, the rapid progress registered after Brezhnev's visit suggests that the Soviets were well informed about the talks all along and that the "hints" represented an orchestrated Soviet-East German "scare campaign."*

East Berlin's hardnosed negotiation stance was logical in view of three of the regime's major goals: a) acquisition of a large sum of hard currency, b) demonstration of the country's "sovereign" and "independent"

status, and c) refusal to concede humanitarian improvements whenever possible. The psychological need to emphasize the country's "sovereign" status accounts for the regime's outright refusal to accept any linkage between the economic package and humanitarian concessions. To the prestige conscious regime, any linkage would be considered bending the knee to Bonn. In July Bonn had linked humanitarian concessions with the economic issues to be negotiated. Specifically, the West Germans wanted the East Germans to permit increased travel to the West and a lowering of the age for the pensioners who could make such a trip. Schmidt emphasized the linkage at a cabinet meeting last September. East Germany, however, refused such linkage on the grounds that the number of East Germans who had travelled to the West increased by 20 percent in 1977. Foreign Office State Secretary Guenther Van Well subsequently informed the Allies that, despite this rejection, the GDR said it would take another look at the matter, but only after the inner-German transit agreements were signed. The talks on humanitarian questions would take place at a "different level"--presumably separate from other topics.

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There are, however, rumors that the GDR may be forthcoming on some human rights matters in the future. West German plenipotentiary for West Berlin, Dietrich Spangenberg, told the Allied ministers on 16 November that the humanitarian situation was, in fact, much better than generally viewed by the West German population. Spangenberg said that East Germany this year was allowing 1500 political prisoners to emigrate with their families, for a total of about 5000. The West German government was, of course, paying the East German regime 80,000 Marks (\$40,000.00) for each of the 1500 prisoners. He also said that many family reunification cases were being resolved, but gave no statistics; he added that East Germany was also allowing more East Germans to visit West Berlin and West Germany. Spangenberg went on to say that all of the party leaders were kept informed about the humanitarian aspect of the talks and they were prepared to keep quiet about the East German concessions.* The pumping up of the above "concessions," however, smacks of an attempt to make the best possible case out of an embarrassing issue, especially as Bonn had hoped for some results.

Domestic Impact on East Germany

The agreements have both an economic and political impact for East Germany. The cash inflows, beginning in 1979, should substantially

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alleviate, at least initially, the growing trade deficit with Bonn and prevent any cutbacks in sorely needed imports from the Federal Republic.

Hard currency inflows associated with the accord will total about \$400 million next year and represent approximately an 80 percent increase over 1978 in transit fees paid by the West German government. Total transfer payments by Bonn, while difficult to assess, may reach more than \$600 million annually.

The East Germans have traditionally run a trade imbalance with West Germany. While the deficit was substantially narrowed last year, there was a \$177 million gap during the first half of 1978 due to stagnating East German exports. The poor quality of some East German products and commitments to export to CEMA trading partners could perpetuate the erosion of East Germany's export performance and magnify the importance of future West German transfer payments in maintaining a balance in inner-German trade.

The East German debt to the Federal Republic currently stands at \$1.6 billion and will probably reach \$2 billion by the end of 1979. Neither Bonn nor East Berlin appears overly concerned about this deficit and inner-German credit facilities are adequate to handle expected future increases. The East Germans are likely to proceed with new long term capital equipment purchases from the West Germans as a result of the cash inflow provided by the economic agreements.

On the political side of the ledger, the agreements appear a plus for Honecker. Despite rumors that he was under pressure from the Soviets and "hawks" in the East German Politburo over his German policy and some of his economic programs, we have seen no proof that this is true. Regarding the alleged opposition to Honecker within the party, it is likely that some security and military officials opposed opening the country further to the "class enemy" (i.e., the West Germans) as a matter of principal and their opposition was not directed against the party chief personally. Honecker probably tried to placate some of those who opposed his inner-German policies by refusing to make concessions in the negotiations, especially in refusing to accept linkage between the economic package and humanitarian concessions.

Honecker was also aided by the fact that he had Moscow's support. While Brezhnev may be unhappy with some of Honecker's policies, the East German leader has not posed major problems of the sort that occurred when Walter Ulbricht was in charge. A case in point is the agreement to negotiate with Bonn over the specifically Berlin-related issue of the Teltow Canal. As long as Brezhnev is in control and detente in Central Europe is pursued by Moscow, Honecker should be able to continue the

present policy toward Bonn. If the post-Brezhnev leadership is more conservative, however, this might reverse East Germany's goal of slowly normalizing relations.

West German Impact of New Interzonal Traffic Improvements

Opposition criticism in West Germany will center on the lack of any perceptible "human improvements" in East-West German relations, for example, relaxation of travel restrictions on East Germans. There is really nothing to show on this score, although government officials say privately that East Germany is permitting more travel to the West in cases where monetary compensation is provided. Other grounds for criticism are that the road and canal improvements are very costly and that East Germany will collect pre-payments for these improvements well before they become serviceable. Although the opposition will not basically reflect the new package of all-German agreements, it will make good use of its standard charge that the Bonn government was outbargained by East Berlin.

The general nature of government claims to achievement, such as Chancellor Schmidt's assertion that the agreements represent an "important contribution to security and detente in Europe," indicates West Germany's gains are not concrete and immediate. Though not publicly acknowledged, top Bonn managers of the negotiations with East Germany were disappointed that visible progress on German-to-German ties was not achieved nor are there "firm expectations" of any. They may have accepted, at least to a degree, the East German judgment that further "human improvements" at this time are not possible, although no West German politician would dare say so. The psychological impact of this long term all-German understanding, widely believed to have been urged by the Soviets, will need to be tested by East Germany before any further relaxation of controls is risked.

Long term gains in the new agreements accrue mainly to West Berlin, which will be accessible more rapidly via the planned northern autobahn and will benefit industrially from the canal improvements. West Germany represented West Berlin de facto on its Teltow Canal negotiations, despite previous East German objections, and Bonn is pleased that this strengthens its claim to handle West Berlin interests. There is no assurance, however, that East Berlin will not reassert its legal position on this matter. Bonn and the Western Allies also see in East Germany's readiness to place the improved transportation facilities under the East-West German transit agreement an implicit strengthening of West Berlin's position as defined in the Quadripartite Agreement. Reaffirmation of these Western positions on Berlin is beneficial psychologically, in the absence of any new Eastern pressures on West Berlin.

Perhaps the most important of these inner-German agreements raised the annual lump sum payment for use of the transitways about 30 percent and fixed it for 10 years. East Germany relies on this regular payment, now fixed at 525 million Marks (DM) annually, and the new agreement provides stability to inner-German relations, as does the entire package, although that stability depends on the overall political climate. Another positive feature, one that will attract West German support for the package, is an East German agreement to pay 50 million DM per year for four years to settle non-commercial claims from West Germany. Thus, by ploughing back into West Germany a fraction of their take, the East Germans improve the Bonn coalition's prospects for gaining endorsement of the deal.

All in all, the new agreements represent progress in East-West German relations and they are important to the climate of detente, though they determine it less than they depend on it. The Bundestag will endorse the package after lively debate, provided there is no unexpected disturbance to inner-German relations in the meantime. The Soviets, who probably helped East Germany to reach the agreement, will carefully observe the impact of this demonstration of all-German cooperation on the people and government of that country.

APPENDIXMajor PointsHamburg-West Berlin Autobahn

East Berlin will receive 1.2 billion Marks (\$600 million); 120 million Marks (\$60 million) will be paid in March 1979 as advance payment, and the remainder in four equal yearly installments. Last summer East Germany demanded 2 billion Marks (\$1 billion) for the work, and the Federal Republic made a counter offer of 1 billion. Construction will begin next June and the project is scheduled for completion in 1983. The highway from West Germany to Wittstock in East Germany (125 km) will be new. The section from Wittstock to Velten (76 km) on the Berlin autobahn ring will utilize part of the already existing East German autobahn from Berlin to Rostock. The twelve kilometer section between Velten and West Berlin will be new. Projected construction also includes two major border crossing points, at Zarrentin on the West-East German frontier east of Hamburg, and in the Heiligensee (Stolpe-Dorf) area of West Berlin where the new highway will enter the city. While East Germany has refused to let West German construction crews participate, it agreed to purchase 100 million Marks (\$50 million) of West German road construction equipment.

The new autobahn is under the umbrella of transit regulations, but the Federal Republic was evidently not successful in keeping the old transit route (the F-5 highway) under the accords. East German negotiator Alexander Schalck rejected Bonn's suggestion on this point in August.

Transit Road Fees

Bonn will pay East Germany 525 million Marks (\$262.5 million) annually for 10 years (1980-89). Transit payments for 1972-75 were 234.9 million Marks (\$117.45 million) per year, and 400 million Marks (\$200 million) for 1976-79. The ten year frame provides a long term fixed sum. In the past, transit payments had been re-examined at intervals because of changes in traffic volume and this resulted in differences due to discrepancies in each side's methods of computation.

Teltow Canal

East German agreement to reopen the Teltow Canal in West Berlin was a surprise and a plus for the Federal Republic. It was likely due to Soviet "suggestions" as the GDR had been adamant in its insistence that it would deal only with the West Berlin Senat on the issue, thus emphasizing the "special" status of West Berlin and thwarting Bonn's

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claims to speak for the city. For its part, Bonn has long argued that the canal came under the transit agreement and thus belonged to East-West German talks, reserving only technical negotiations for the Senat to discuss with East Germany.

The GDR also did not want the waterway included under the transit accords. Although last January West German officials noted that the canal was a "highly political problem" unlikely to be resolved soon, Honecker announced in June that the matter should be considered in the talks. The GDR also agreed that the canal should be included in the regulations concerning the transit waterway system.

Reconstruction on the 38-kilometer long canal will begin next June and is expected to take three years. The GDR will be paid 70 million Marks (\$35 million) for the work, 20 million Marks (\$10 million) less than East Berlin had originally demanded. It will be of economic benefit to industries in the American sector of Berlin; shipping time and costs will be reduced. As the western entrance to the Teltow Canal is blocked, barges now use the Havel River, cross the Spree River into East Berlin, and then enter the Britzer Branch Canal before entering the eastern part of the Teltow Canal.

Transit Waterway Repairs

Agreement on improvements to the Mittelland and Elbe-Havel canal transit waterways was not contentious. The work, which will cost 120 million Marks (\$60 million), is to be done over three years. The GDR opened with a bid of 1 billion Marks (\$500 million) for repair of all segments of the transit waterways, but Bonn said that it would agree only to having the most urgent repairs made, and offered 90 million Marks (\$45 million). The Federal Republic did agree to a declaration of intent to discuss further reconstruction of the waterways in 1980.

Non-Commercial Payments

East Germany will pay 200 million Marks (\$100 million) in four equal installments during 1979-82 to facilitate the disbursement of credit balances in East German currency belonging to East German pensioners who have resettled in West Germany. There apparently was not much disagreement over this issue, which fulfills an agreement signed in April 1974.

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